

Report of the auditor-general to Limpopo Provincial Legislature and the Council of the Greater Tzaneen Local Municipality

Report on the audit of the consolidated financial statements

Qualified opinion

1. I have audited the consolidated financial statements of the Greater Tzaneen Local Municipality and its subsidiaries set out on pages 12 to 120 which comprise the consolidated and separate statement of financial position as at 30 June 2019, the consolidated statement of financial performance, profit or loss and other comprehensive income, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Greater Tzaneen Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with accordance with South African standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division Of Revenue Act of South Africa, 2018 (Act No.1 of 2018) (DoRA)

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. As a result, I identified items of property, plant and equipment belonging to the municipality that had a carrying amount of zero for the current year while still being in use. I was unable to determine the impact on the net carrying amount of property, plant and equipment in the consolidated financial statements as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment, stated at R1 455 343 521 (2018: R1 486 460 143) in the consolidated financial statements, was necessary

Irregular expenditure

4. The municipality did not include particulars of irregular expenditure in the notes to the consolidated financial statements as required by section 125(2)d of the MFMA. Irregular expenditure of R11 635 861 was incurred due to payments made in contravention of the supply chain management requirements. The municipality did not have adequate systems in place to identify and report on all irregular expenditure incurred. I was not able to determine the full extent of the understatement of irregular expenditure on the current year as it was impracticable to do so. Consequently, I was unable to determine whether any further

adjustments were necessary to the irregular expenditure stated at R32 826 799 in the consolidated financial statements.

Context for the opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
6. I am independent of the Municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 62 to the consolidated financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the consolidated financial statements of the municipality at, and for the year ended, 30 June 2019.

Material impairments – receivables

10. As disclosed in note 60 to the consolidated financial statements, material losses to the amounts of R132 298 457 was incurred, as a result of ineffective revenue collection practices.

Significant uncertainties

11. With reference to note 41 to the consolidated financial statements, the municipality is the defendant in a number of claims. The municipality is opposing these claims. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the consolidated financial statements.

Material losses - electricity

12. As disclosed in note 52 to the consolidated financial statements, material electricity losses of R123 565 476 (2018: R108 946 468) was incurred, which represents 20.62% (2018: 22.01%) of the total electricity purchased

Other matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the consolidated financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

15. The supplementary information set out on pages 120 to 138 does not form part of the consolidated financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of accounting officer for the consolidated financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with SA Standards of GRAP the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the consolidated financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated financial statements

18. My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
19. A further description of my responsibilities for the audit of the consolidated financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key

performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance areas presented in the annual performance report of the Municipality for the year ended 30 June 2019:

Key Performance Areas	Pages in the annual performance report
KPA: Service delivery	09 – 17
KPA: Economic growth	18 – 57

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the usefulness and reliability of the selected key performance areas are as follows:

KPA: Service delivery

Reported achievement did not agree with the evidence provided, i.e. not valid and/or accurate and/or complete

25. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicator listed below.

Indicator description	Reported achievement	Audited value
Construction of Bund wall at ERF 2990 Koede street	200%	10%

Performance indicators were not verifiable

26. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to a lack of technical indicator descriptions and/or formal standard operating procedures or documented system descriptions. I was unable to validate the existence of systems and processes by alternative means.

Various Key Performance Indicators (KPI)

- Urban waste kerbside collection
- Percentage households earning less than R1 100 with access to free basic waste removal (total registered as indigents)
- Percentage households earning less than R1 100 services with free basic electricity (total registered as indigents)
- Public toilet management
- Number of households with access to basic level of solid waste management services
- Solid waste litter picking in the Greater Tzaneen Municipal (GTM) area
- Total number of registered indigent households who received free basic water and sanitation (GTM service area)
- Number of households with access to electricity
- Percentage of households with access to electricity

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on pages 09 to 144 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) 21 to 25 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the Municipality with specific

matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

Consolidated annual financial statements, performance and annual reports

31. The consolidated financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the consolidated financial statements receiving a qualified opinion.

Procurement and contract management

32. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) and preferential procurement regulations.

33. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by supply chain management (SCM) regulation 29(5)(b).

34. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and preferential procurement regulations.

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R7 438 134 as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

36. Reasonable steps were not taken to prevent unauthorised expenditure to the amount of R83 028 989 as disclosed in note 45, as required by section 62(1)(d) of the MFMA.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R9 957 974 as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by payments relating to legal fees.

Human resource management

38. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Other information

39. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the consolidated financial

statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.

40. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
41. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
42. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

43. I considered internal control relevant to my audit of the consolidated financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
44. Although some of the controls and review over the daily and monthly recording and reconciliation of transactions and account balances are in place, the accounting officer did not adequately monitor them. This resulted in material non-compliance with laws and regulations and the submission of financial records and performance information which were not accurate and complete.

Auditor-General

Polokwane

19 December 2019



Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit¹

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of which constitutes the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Greater Tzaneen Municipality and its subsidiary ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - [obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion]²

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may

reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.